

ARCO Oil and Gas Company
Central District
Post Office Box 1610
Midland, Texas 79702
Telephone 915 688 5200



November 30, 1987

Mitchell Energy Corporation
1000 Briercroft Savings Building
200 North Loraine
Midland, Texas 79701

Attention: Mr. Larry Cunningham

Re: Decision to Farmout
Erwin #1
NE/4 NW/4 Section 3
T-15-S, R-35-E, NMPM
Lea County, New Mexico
S-NM-7003

Gentlemen:

ARCO has evaluated Mitchell Energy's proposal to form a working interest unit for the drilling of a Devonian test in the NE/4 NW/4 of Section 3, T-15-S, R-35-E, and has elected to farmout one spacing unit in support of the test. ARCO will farmout on the following terms:

- 1) Commencement of drilling operations at a legal location in the NE/4 NW/4 of Section 3, T-15-S, R-35-E, Lea County, New Mexico, will occur within 90 days from the date of a formal agreement.
- 2) Mitchell will have the right to drill to 14,700' or to a depth sufficient to test the Devonian formation, whichever is the lesser depth.
- 3) If the test well is completed as a commercial producer, Mitchell will earn a lease from ARCO covering 100% of ARCO's interest in the spacing unit for the well as prescribed by the New Mexico Oil Conservation Division. Mitchell will earn rights from the surface to the stratigraphic equivalent of 100' below total depth drilled.
- 4) ARCO will reserve a proportionately reduced 25% royalty and the option to convert 1/16 of the royalty (6.25%) to a proportionately reduced 30% working interest in the test well upon payout of said well.
- 5) A mutually acceptable Operating Agreement shall be attached as Exhibit 2 to the Farmout Agreement.

The farmout agreement is being prepared by ARCO and will be forwarded to Mitchell when it is complete.

Very truly yours,

Rita A. Buress
Landman

EXHIBIT D